

Message Text

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C O N F I D E N T I A L KUWAIT 2419

EXDIS

E.O. 11652: GDS
TAGS: MASS, EG, SA, TC, KU, QA
SUBJ: FUNDING EGYPTIAN MILITARY AND MILITARY-RELATED PURCHASES

REF: STATE 101030

1. IN RESPONSE TO DEPARTMENT'S REQUEST FOR OUR VIEWS REGARDING THE FUNDING OPTIONS DISCUSSED REFTEL, IT APPEARS THAT OPTION THREE IS PREFERABLE, BOTH FOR THE USG AND US INDUSTRY. THE OTHER TWO OPTIONS DEPEND HEAVILY UPON THE EFFICIENCY AND LONG TERM POLITICAL ATTITUDES OF POTENTIAL DONOR GOVERNMENTS AND OF THE GOE. A FAILURE IN EITHER OF THESE AREAS COULD LEAVE THE US HOLDING THE BAG OR FIND US FORCED INTO AWKWARD ROLES AS COLLECTION AGENT OR WOULD-BE ENFORCER OF DONOR COMMITMENTS.

2. OPTION THREE, WHICH EMBODIES ALTERNATIVE TYPES OF IRREVOCABLE DONOR COMMITMENTS IN THE FORM OF TRUST FUNDS THRU APPEARS MOST FEASIBLE. SUCH A FUND COULD BE MADE MORE ATTRACTIVE TO DONOR GOVERNMENTS -- CERTAINLY TO KUWAIT -- IF IT COULD BE COMPOSED OF INSTRUMENTS BEARING INTEREST HIGHER THAN MERE SAVINGS, PERHAPS WITH PROVISION FOR ROLL
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OVER. THE RATE OF INTEREST WOULD PROBABLY BE A MAJOR GOK CONCERN. ALSO, EACH CONTRACT OF SALE (OR A GROUP OF CONTRACTS) MIGHT BE MADE CONDITIONAL UPON THERE BEING A PREDETERMINED LEVEL OF FUNDING IN THE TRUST ACCOUNT.

3. IT APPEARS THAT THE BEST WAY FOR THE USG TO APPROACH KUWAIT AS A POTENTIAL DONOR WOULD BE THROUGH SAUDI ARABIA.

THE GOK WOULD NATURALLY LOOK TO SAUDI LEADERSHIP IN SUCH A CONSORTIUM, AND ESPECIALLY SO IN THIS CASE, SINCE GENERAL KUWAITI POLICY IS NOT TO PROVIDE ARMS DIRECTLY TO OTHER COUNTRIES. THE GOK HAS, HOWEVER, PROVIDED FUNDS (TO ARAB BROTHERS) WHICH HAVE EVENTUALLY BEEN USED TO PURCHASE ARMS. IN ORDER TO INTEREST KUWAIT IN THIS PROPOSITION, THEREFORE, WE BELIEVE THAT A SAUDI COMMITMENT PLUS A BIT OF STAGE-MANAGING BY THE SAUDIS WOULD BE NECESSARY.
MAESTRONE

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